

Senate Study Bill 1230

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CO=CHAIRPERSON ZIEMAN)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to tax credits provided for purposes of acquiring
2 agricultural assets by beginning farmers, and providing
3 effective and applicability dates.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
5 TLSB 1803XC 81
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1 1 Section 1. Section 175.2, Code 2005, is amended by adding
1 2 the following new subsection:
1 3 NEW SUBSECTION. 0A. "Agricultural assets" means
1 4 agricultural land, depreciable agricultural property, crops,
1 5 or livestock.
1 6 Sec. 2. NEW SECTION. 175.37 AGRICULTURAL ASSETS == TAX
1 7 CREDIT.
1 8 1. A tax credit is allowed against the taxes imposed in
1 9 chapter 422, division II or III, to facilitate the transfer of
1 10 agricultural assets from a taxpayer to a beginning farmer.
1 11 2. a. In order to qualify for the tax credit, the
1 12 taxpayer must meet qualifications established by rules adopted
1 13 by the authority. At a minimum, the taxpayer must be a person
1 14 who may acquire or otherwise obtain or lease agricultural land
1 15 in this state pursuant to chapter 9H or 9I. However, the
1 16 taxpayer must not be a person who may acquire or otherwise
1 17 obtain or lease agricultural land exclusively because of an
1 18 exception provided in one of those chapters or in a provision
1 19 of another chapter of this Code including but not limited to
1 20 chapter 10 or 10C, or sections 15.331B or 15E.207.
1 21 b. In order to qualify as a beginning farmer, a person
1 22 must be eligible to receive financial assistance under section
1 23 175.12.
1 24 3. An individual may claim a tax credit under this section
1 25 of a partnership, limited liability company, S corporation,
1 26 estate, or trust electing to have income taxed directly to the
1 27 individual. The amount claimed by the individual shall be
1 28 based upon the pro rata share of the individual's earnings
1 29 from the partnership, limited liability company, S
1 30 corporation, estate, or trust.
1 31 4. The tax credit is allowed only for agricultural assets
1 32 that are subject to a lease or rental agreement. The
1 33 agreement may be made on a cash basis or on a commodity share
1 34 basis which includes a share of the crops or livestock
1 35 produced on the agricultural land. The agreement must be in
2 1 writing. The lease must be for a term of at least two years.
2 2 The lease may be renewed for a term of at least two years.
2 3 The taxpayer may claim the tax credit under the renewal lease
2 4 in the same manner as the original lease. A lease does not
2 5 include a lease intended as a security.
2 6 5. The tax credit shall be calculated based on the gross
2 7 amount paid to the taxpayer under the lease or rental
2 8 agreement.
2 9 a. Except as provided in paragraph "b", the tax credit
2 10 shall equal five percent of the amount paid to the taxpayer
2 11 under the agreement.
2 12 b. The tax credit shall equal fifteen percent of the
2 13 amount paid to the taxpayer from crops or animals sold under
2 14 an agreement in which the payment is exclusively made from the
2 15 sale of crops or animals.

2 16 The taxpayer may claim the tax credit until the beginning
2 17 farmer is no longer eligible to receive financial assistance
2 18 under section 175.12. A tax credit in excess of the
2 19 taxpayer's liability for the tax year may be credited to the
2 20 tax liability for the following five years or until depleted,
2 21 whichever is earlier. A tax credit shall not be carried back
2 22 to a tax year prior to the tax year in which the taxpayer
2 23 redeems the tax credit. A tax credit shall not be
2 24 transferable to any other person other than the taxpayer's
2 25 estate or trust upon the taxpayer's death.

2 26 6. A taxpayer shall not claim a tax credit under this
2 27 section unless a tax credit certificate issued by the
2 28 authority is attached to the taxpayer's tax return for the tax
2 29 year for which the tax credit is claimed. The authority must
2 30 review and approve an application for a tax credit as provided
2 31 by rules adopted by the authority. The application must
2 32 include a copy of the lease or rental agreement. The
2 33 authority may approve an application and issue a tax credit
2 34 certificate to a taxpayer who has previously been allowed a
2 35 tax credit under this section. However, the authority shall
3 1 not approve an application or issue a certificate to a
3 2 taxpayer if any of the following applies:

3 3 a. The taxpayer is at fault for terminating a prior lease
3 4 or rental agreement subject to this section as determined by
3 5 the authority.

3 6 b. The taxpayer is any of the following:

3 7 (1) A party to a pending administrative or judicial
3 8 action, including a contested case proceeding under chapter
3 9 17A, relating to an alleged violation involving an animal
3 10 feeding operation as regulated by the department of natural
3 11 resources, regardless of whether the pending action is brought
3 12 by the department or the attorney general.

3 13 (2) Classified as a habitual violator for a violation of
3 14 state law involving an animal feeding operation as regulated
3 15 by the department of natural resources.

3 16 c. The beginning farmer is responsible for managing or
3 17 maintaining agricultural land and other agricultural assets
3 18 that are greater than necessary in order to adequately support
3 19 a beginning farmer as determined by the authority according to
3 20 rules which shall be adopted by the authority.

3 21 d. The agricultural assets are being leased or rented at a
3 22 rate which is substantially higher or lower than the market
3 23 rate for similar agricultural assets leased or rented within
3 24 the same community, as determined by the authority.

3 25 7. The authority shall review each existing lease or
3 26 rental agreement which is part of an application approved by
3 27 the authority on a quarterly basis. The authority may require
3 28 that the taxpayer and the beginning farmer provide additional
3 29 information as determined relevant by the authority.

3 30 8. A taxpayer or the beginning farmer may terminate a
3 31 lease or rental agreement as provided in the agreement or by
3 32 law. The taxpayer must immediately notify the authority of
3 33 the termination.

3 34 a. If the authority determines that the taxpayer is not at
3 35 fault for the termination, the authority shall not issue a tax
4 1 certificate to the taxpayer for a subsequent tax year based on
4 2 the approved application. Any prior tax credit is allowed as
4 3 provided in this section. The taxpayer may apply for and be
4 4 issued another tax credit certificate for the same
4 5 agricultural assets as provided in this section for any
4 6 remaining tax years for which a certificate was not issued.

4 7 b. If the authority determines that the taxpayer is at
4 8 fault for the termination, any prior tax credit allowed under
4 9 this section is disallowed. The tax credit shall be
4 10 recaptured and the amount of the tax credit shall be
4 11 immediately due and payable to the department of revenue. If
4 12 a taxpayer does not immediately notify the authority of the
4 13 termination, the taxpayer shall be conclusively deemed at
4 14 fault for the termination.

4 15 Sec. 3. APPLICABILITY AND EFFECTIVE DATES. This Act takes
4 16 effect January 1, 2006, and is applicable to tax years
4 17 beginning on or after that date.

4 18 EXPLANATION

4 19 This bill amends provisions regarding the agricultural
4 20 development authority (referred to as the "authority")
4 21 established in Code chapter 175, the "Iowa Agricultural
4 22 Development Act". The authority is an instrumentality housed
4 23 in the office of treasurer of state that is responsible for
4 24 administering a number of programs to assist agricultural
4 25 producers, including the beginning farmer program. A
4 26 beginning farmer is an individual, partnership, family farm

4 27 corporation, or family farm limited liability company as
4 28 provided under Code chapter 9H (Iowa's corporate farming law),
4 29 with a low or moderate net worth who engages in farming or
4 30 wishes to engage in farming.

4 31 The bill provides a tax credit for owners of agricultural
4 32 assets (agricultural land, depreciable agricultural property,
4 33 crops, or livestock) who help beginning farmers to acquire
4 34 agricultural assets by lease or rental arrangements. The tax
4 35 credit may be taken against individual or corporate income.
5 1 An owner (referred to as the taxpayer) claims the tax credit
5 2 after receiving a certificate issued by the authority which is
5 3 attached to the taxpayer's tax return. The bill provides for
5 4 limited carry forward but does not provide for carry back.
5 5 Generally the taxpayer cannot transfer the tax credit. There
5 6 is one exception: the tax credit can pass to the taxpayer's
5 7 estate.

5 8 The taxpayer must be a person who may acquire or otherwise
5 9 obtain or lease agricultural land in the state under Code
5 10 chapter 9H or 9I (restricting foreign ownership of
5 11 agricultural land). In addition, the taxpayer cannot acquire
5 12 or otherwise obtain or lease agricultural land exclusively
5 13 because of an exception provided in one of those Code chapters
5 14 (e.g., an encumbrance taken for purposes of security). The
5 15 person also cannot hold land based on an exception in other
5 16 Code provisions, including Code chapter 10 (corporate
5 17 networking entities), 10C (life science enterprises), Code
5 18 section 15.331B (businesses in economic development areas), or
5 19 15E.207 (an Iowa agricultural industry finance corporation).

5 20 The bill provides a number of restrictions upon the
5 21 authority in approving applications and issuing certificates.
5 22 The taxpayer cannot be at fault for terminating a prior lease;
5 23 the taxpayer cannot be involved in legal proceedings regarding
5 24 environmental violations; the beginning farmer cannot be
5 25 provided more agricultural assets than what the beginning
5 26 farmer can be expected to adequately manage; and the
5 27 agricultural assets cannot be leased or rented at a rate
5 28 substantially different from similar market arrangements.

5 29 The bill provides that an agreement may be terminated but
5 30 also provides that if the termination is the fault of the
5 31 owner, any tax credits must be repaid and no further tax
5 32 credit certificates can be issued to the taxpayer.

5 33 The bill takes effect on January 1, 2006, and applies to
5 34 tax years beginning on or after that date.

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